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G. R. Evans
Vice President,
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December 30, 1998

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
The Portals
445 12th Street, S.W.
Washington, D.C. 20554

Re: CC Docket No. 96-262

Dear Ms. Salas:

Today, Frank Gumper and I, representing Bell Atlantic, met with Larry Strickling, Jane Jackson, and Don Stockdale of the Common Carrier Bureau regarding the item captioned above. The attached material served as the basis for the discussion.

Any questions on this filing should be directed to me at either the address or the telephone number shown above.

Sincerely,

GR Evans

Attachment

cc: Mr. L. Strickling
Ms. J. Jackson
Mr. D. Stockdale

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PRICING FLEXIBILITY AND ACCESS REFORM

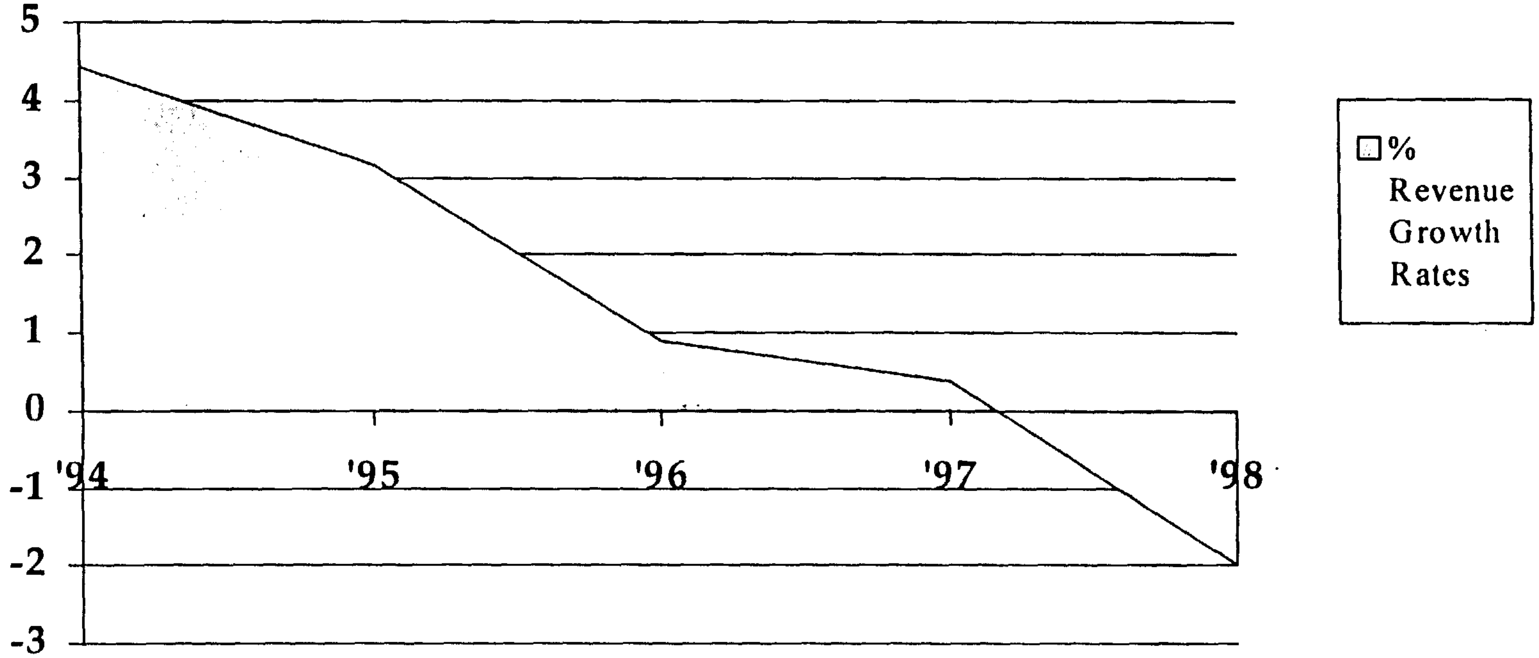
Bell Atlantic

December 30, 1998

Interstate Access - What is the Problem?

- Overly regulated service in an increasingly competitive market
- One size fits all pricing rules prevent the pricing of access services to meet the competition

Interstate Access Revenues Growth Rate



'98 Growth Rate Estimated

Bell Atlantic Pricing Flexibility Proposal

- Framework for decreasing regulation as competition increases
  - » Plan tied to level of competition in a given area
  - » Rates reduced more economically over time
  - » Criteria for flexibility are -
    - explicit
    - measurable
    - verifiable

Pricing Flexibility Principles and Benefits

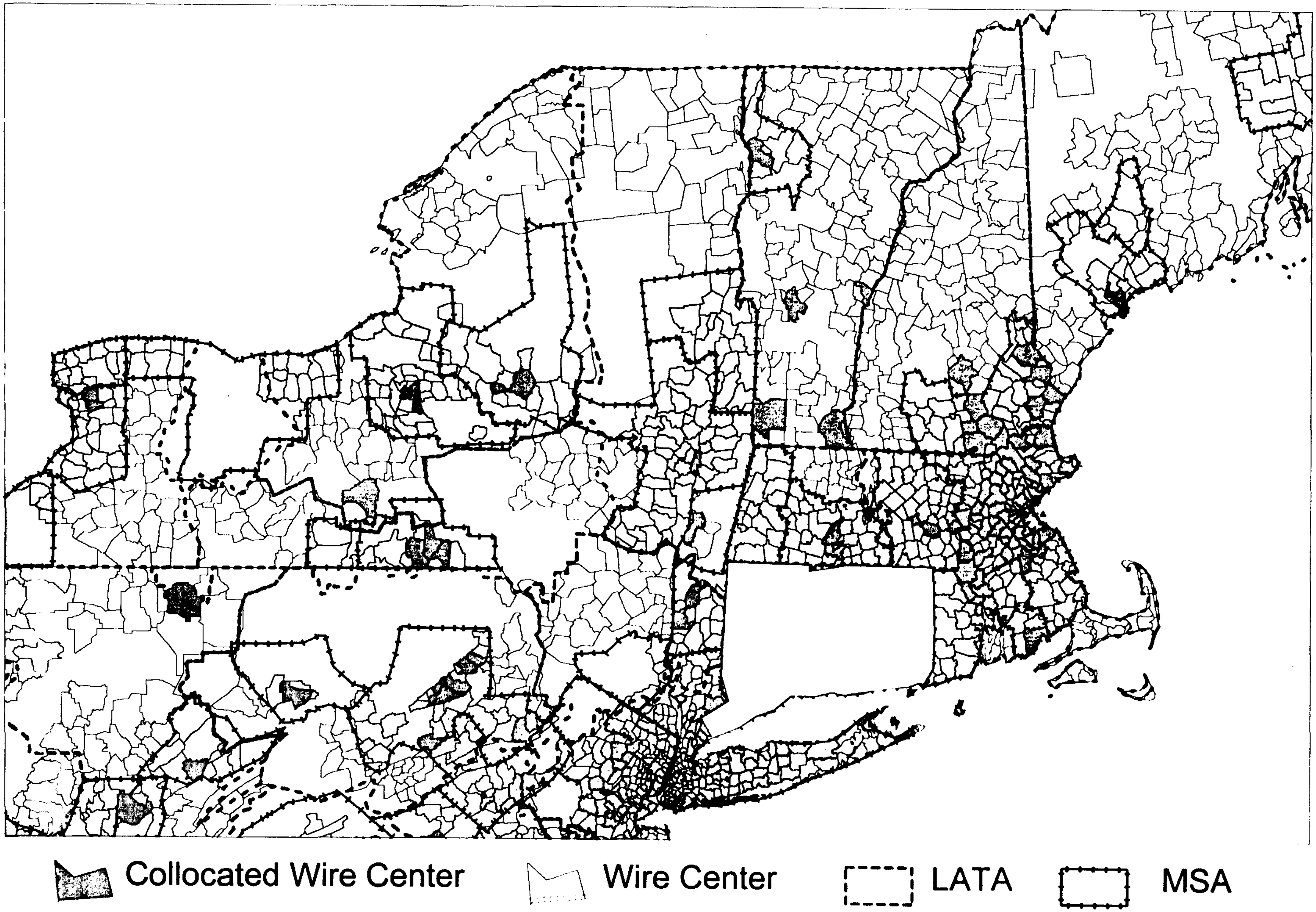
- An administratively simple process using objective, verifiable criteria is required
  - » With 163 LATAs in 50 states and multiple services offered in each, the FCC could be inundated with individual pricing flexibility requests

- Bell Atlantic process will provide:
  - » a comprehensive framework for streamlined case-by-case resolution of requests, and
  - » reduced administrative burdens for both the FCC and applicants

Proposed Process For Pricing Flexibility

- A three phase framework under which pricing flexibility increases with competition
- ILECs may seek flexibility for a service group by a self-defined market area no smaller than a LATA
    - » Competition will evolve differently for different services
        - Switched - multiline business vs. single line bus. & res.
        - Transport - Special Access, Direct Trunked Transport & Tandem Switched Transport
    - » The ILEC assumes the burden of proving the threshold for the criteria for the entire market area
        - larger areas require burden of showing for entire area
        - smaller areas require burden of multiple showings

Bell Atlantic Wire Centers, LATAs and MSAs



Criteria For Pricing Flexibility

	Phase 1 Competitive Presence	**Phase II** Increased Competition	**Phase III** Substantial Competition
Transport	100 DSI – Equivalent colocated cross-connects state wide	Competition serves, or has access to, 25% of the market	Competition serves, or has access to, 75% of the market
Switched Access	• Interconnection Agreements • Interim number portability • 100 UNE loops in Service	Competition serves, or has access to, 25% of the market	Competition serves, or has access to, 75% of the market

Criteria For Transport Flexibility

Phase I 100 DS1 equivalent collocated cross connects -- State Wide

Phase II competitors have demonstrated the capability to provide service to **25%** of the market area

- **Step 1:** Classify wire centers (WCs) as competitive or non-competitive.
  - » **Special Access** competitive WCs are where a competitor has collocated facilities or its own facilities in the geographic area served by the WC
  - » **Switched Transport** competitive WCs are where a competitor has collocated facilities
- **Step 2:** Calculate the % of ILEC demand in competitive WCs to the total ILEC demand in the market area

Criteria For Transport Flexibility

Phase III

» Competitors have demonstrated the capability to provide service to **75%** of market area

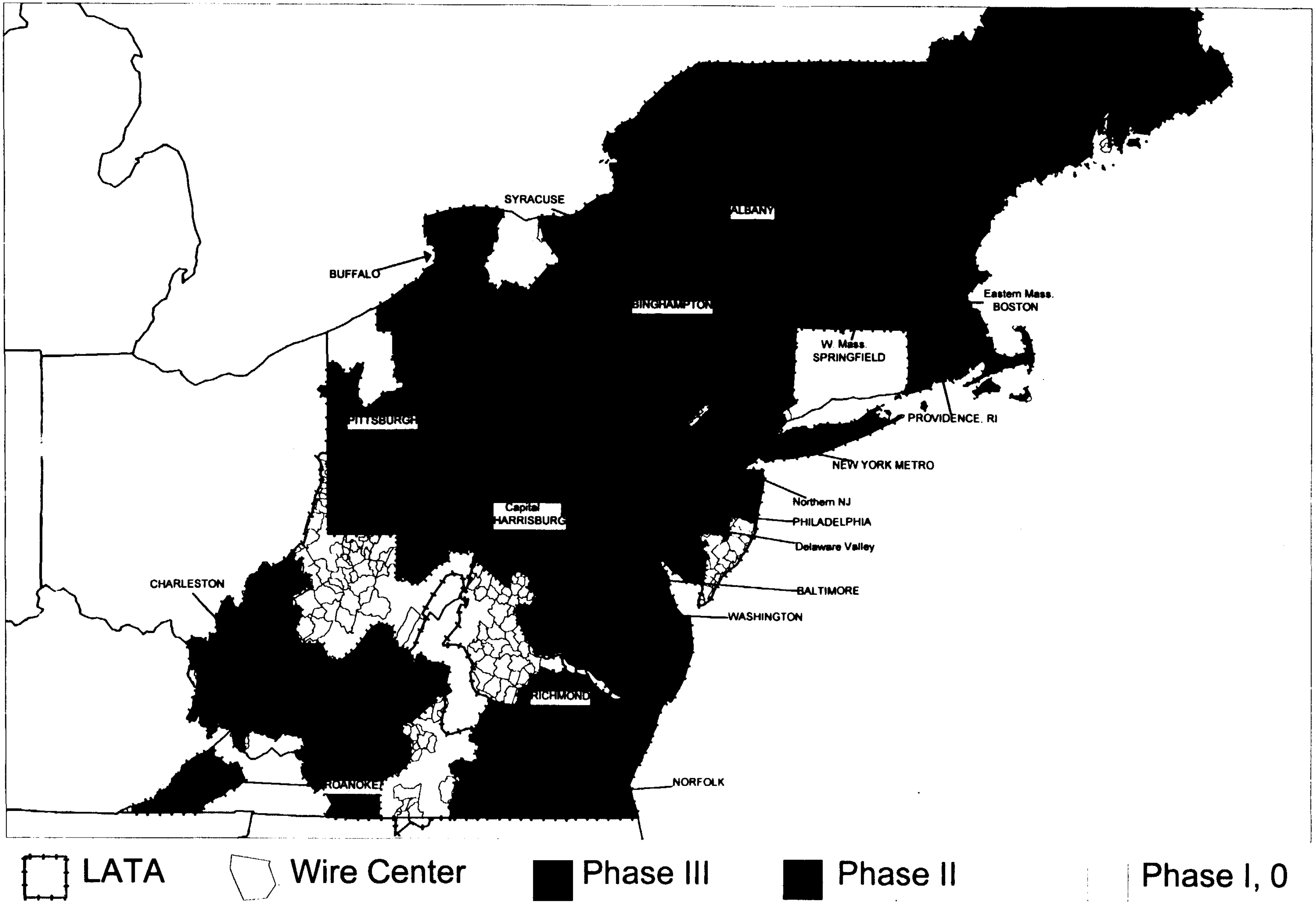
- Use same steps as Phase II to determine that criteria are met

Pricing Flexibility Granted
Transport Markets

Services	Phase I*	Phase II	Phase III
Special Access	Growth option with V&T *Promotional offerings*	Respond to RFPs Increase upper service band limits to 10%	Services removed from Price Cap regulation
Switched Transport	Growth option with V&T Target TIC reductions to TIC in collocated WCs *Promotional offerings*	Respond to RFPs Increase upper service band limits to 10%	Services removed from Price Cap regulation

* An expedited process should also be adopted to enable the ILECs to respond to the RFPs of end users due to competitive necessity.

Switched Transport



Bell Atlantic Already has Significant Statewide Pricing Flexibility in State Jurisdictions for Similar Private Line Services

SERVICE DESCRIPTION	NJ	PA	DE	MD	VA	DC	WVA	NY	ME	RI	MA
High Capacity (1.544 MB & Above)											
Digital Data Service											
Metallic - Local Channels - 1000 Series - Telegraph											
Dedicated Voice Grade – Program Audio											
Frame Relay Service											
Switched 56 Kilobit											
Switched Multimegabit Data Service											
Dedicated Derived Channel 9000 Ser. All other											

Shading indicates where pricing and packaging flexibilities and broad customer specific pricing flexibilities for business services are permitted.

Notes: New Hampshire and Vermont are under rate of return regulation. Business services competitive reclassification filed for and pending in Pennsylvania.

Criteria For Switched Access Flexibility

Phase I -- State Wide

- » Negotiated or State approved agreements, statements or Tariffs for:
  - UNEs
  - Discounted resold services
  - Transport and termination of traffic
- » Interim number portability is available
- » 100 UNE loops are in service

Criteria For Switched Access Flexibility

Phase II -- Competitors have demonstrated the capability to provide service to **25%** of the market area

Step 1: Classify WCs as competitive or non-competitive

» Competitive WCs are

- where competitors have collocated facilities **and** have purchased UNEs by class of customer (MLB vs SL); **or**
- where competitors are providing service with UNEs, ported TNs or their own TNs in a WC serving area by class of service

Step 2: Calculate the % of ILEC lines by residence and SL business, or ML business served in competitive WCs to the total ILEC lines by class of service served in the market area

Criteria For Switched Access Flexibility

Phase III

» Competitors have demonstrated the capability to provide service to **75%** of market area

- Use same steps as Phase II to determine that criteria are met

Pricing Flexibility Granted

Switched Access Markets

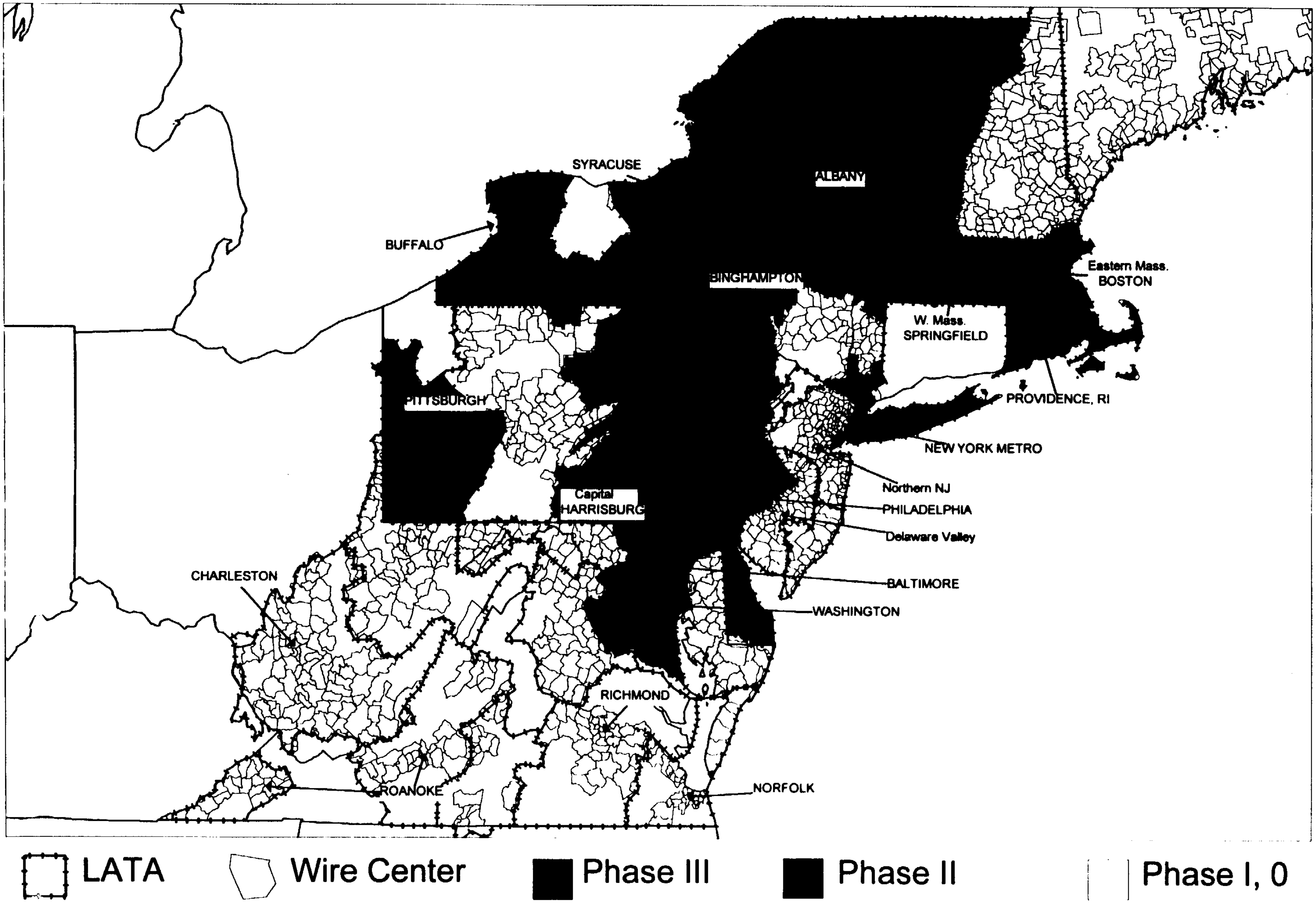
Services	Phase I*	Phase II	Phase III
ML business	Deaverage ML PICCs by UNE loop zone V&T PICC pricing Deaverage ML SLC by UNE loop zone Deaverage overflow ML Bus O/T MOU by UNE loop zone Promotional offerings	Respond to RFPs Growth option with V&T plans Deaverage LS rate element by State	Services removed from Price Cap regulation
SL business and residence	Deaverage PICCs by UNE loop zone and class of customer V&T PICC pricing Promotional offerings	Respond to RFPs Deaverage LS rate element by State Deaverage overflow O/T MOU by UNE loop zone and class of customer Deaverage SLCs by UNE loop and class of customer zone	Services removed from Price Cap regulation

* An expedited process should also be adopted to enable the ILECs to respond to the RFPs of end users due to competitive necessity.

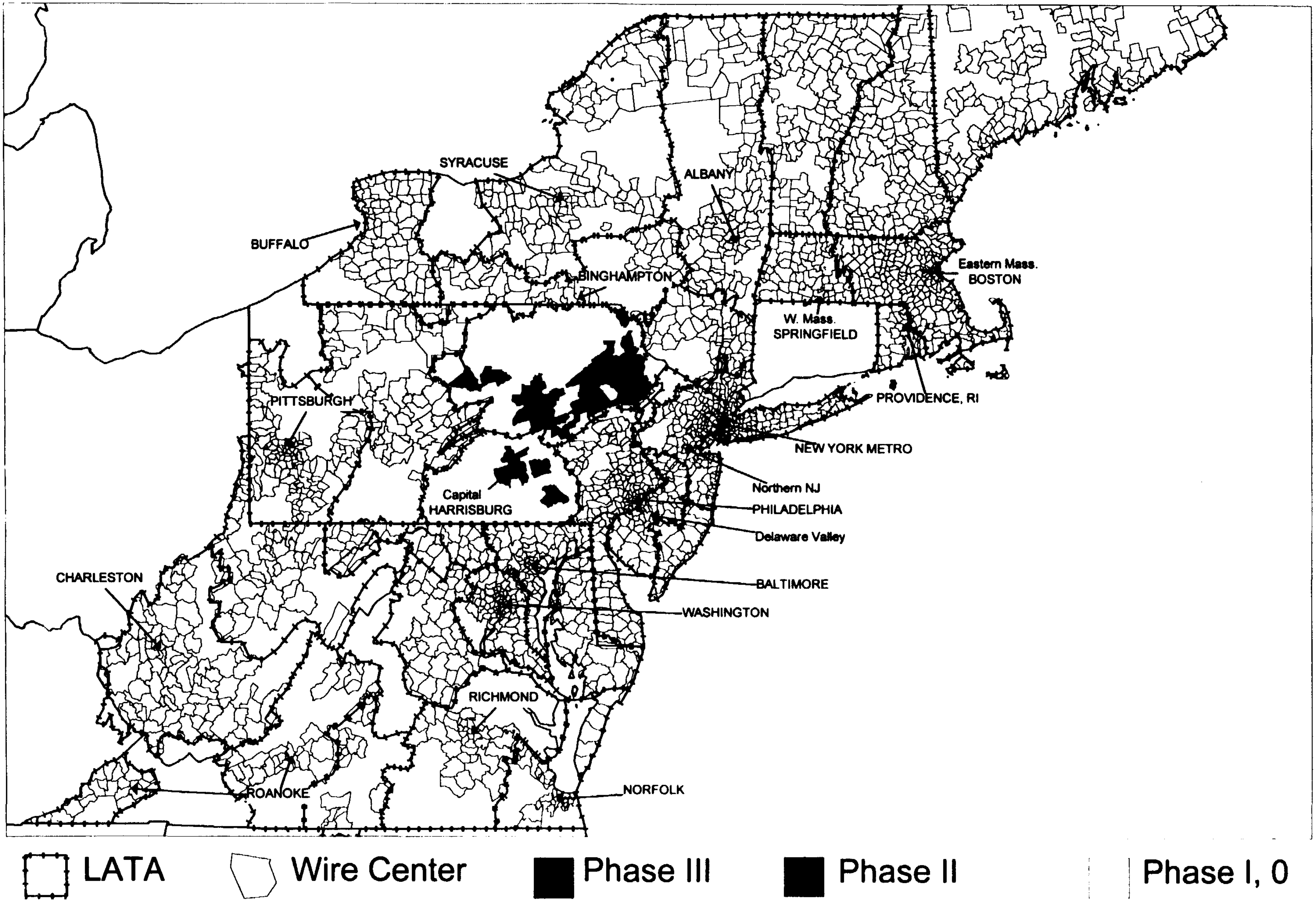
The Pricing Flexibility Proposal's Safeguards

- Phase I provides flexibility for downward price deaveraging only
  - » No consumer rate increases in rural high cost areas
- Phase II provides limitations on the amount of upward price deaveraging
  - » Rural high cost consumers protected from unreasonable rate increases

Multiline Business



Residential and Single Line Business



State	Contract Carriage	Competitive Services	Other Pricing Flexibility	Pricing Rules for Remaining Services: Basic Services	Pricing Rules for Remaining Services: Discretionary Services	Exog Chgs
Delaware	CSPs allowed for competitive services.	MTS /WATS/800, operator, and Hi-Cap are competitive. Competitive Services have full pricing flexibility subject to a price floor. Prices may be set by contract on short notice.	Discretionary service rates may be increased up to 15% per year.	Basic rates subject to: GDP-PI – 3%. No decreases to less than incremental cost. ISDN, Switched and Special Access are basic.	Rates may be increased up to 15% per year. Most Private Line services are discretionary.	Yes
Maryland	Customer Specific Pricing (CSP) allowed for customers with > $40K annual expense. CSPs filed under seal with Commission.	New Services WATS/800, Centrex and Hi-Cap PL and Special Access are competitive. Competitive Services generally have full pricing flexibility subject to a price floor. Prices may be set by contract or tariff on short notice.	Revenue neutral changes allowed but no price may increase > 10%.	Basic residence, basic business, and switched access capped to 1/2000 Then Price Cap Index applies: (GDP-PI - [3 year running average of the CPI] +/- exogenous changes). Foregone increases may be taken in future.	Prices subject to Price Cap Index. Revenue neutral changes allowed but no price may increase >10%. Foregone increases may be taken in the future. ISDN, MTS, and Lo-Cap PL and Special Access are discretionary.	Yes
Maine	Special contracts may be offered to any customer with realistic competitive alternative at lower prices. Contract must cover marginal costs plus some contribution. Contracts do not need prior Commission approval.	Genuinely new services, Private Line, Hi-Cap and ISDN are treated as competitive. Competitive Services generally have full pricing flexibility subject to a price floor. Prices may be set by contract or tariff on short notice.	Core Discretionary service prices can be changed to any level but can only be increased at annual filing. No price constraints on non-core services except for marginal cost floor.	Basic (Core) prices subject to formula: GDP-PI - 4.5% +/- exogenous changes. MTS, WATS/800, switched access are core-discretionary and subject to formula.	Core Services, basic and discretionary, are subject to PRI in aggregate and collectively increases cannot exceed PRI. Discretionary service prices can be changed to any level but can only be increased at annual filing.	Yes

Bell Atlantic – Summary of Pricing Flexibility in State Regulatory Plans						
State	Contract Carriage	Competitive Services	Other Pricing Flexibility	Pricing Rules for Remaining Services		Exog Chgs
				Basic Services	Discretionary Services	
Rhode Island	CSPs allowed for network usage, private lines and data. Centrex services may be offered under Large System Specific Pricing Plans. PUC has 30 days to rule on tariff.	MTS, WATS/800, Hi-Cap, Private Line and ISDN are competitive. Competitive Services generally have full pricing flexibility subject to a price floor. Prices may be set by contract or tariff on short notice.	No individual discretionary service rate increase may be more than 2*CPI or 5% whichever is less.	Basic rates subject to formula: GDP-PI – 4% +/- exogenous changes. No individual increases for basic services greater than CPI or 5% whichever is less. Basic exchange rates are capped until 1/15/2000, and the initial period charge for local payphone calls is capped until 12/31/2000.	Prices increases subject to price cap formula: 2*GDP-PI - 4% +/- exogenous changes. No service rate increase > 2*CPI or 5% whichever is less. No decreases required. Switched and special access are subject to a price cap of GDP-PI +/- exogenous. No rate element increase > 2*CPI or 5% whichever is less.	Yes
Virginia	Individual Case Basis (ICBs) contracts where a competitive offer has been demonstrated. Prices subject to price floor test.	WATS/800 are competitive. Competitive Services generally have full pricing flexibility subject to a price floor. Prices may be set by contract or tariff on short notice.	One increase per discretionary service permitted per year. Increase may be no more than .0083 times the number of months since the last increase (10% for 12 months) up to 25%.	No increases to basic services to 1/2001. Then increases permitted at 1/2 GDP-PI. ISDN, MTS, Switched and Special Access, PL (except DDS) are basic.	One increase per service permitted per year. Increase may be no more than .0083 times the number of months since the last increase (10% for 12 months) up to 25%. Hi-Cap and DDS are discretionary.	No
Washington, DC	CSP allowed for basic, discretionary and competitive services. Copy of CSP must be filed with data to show rates are > long run incremental cost.	Hi-Cap, DDS and Centrex are competitive. Competitive Services generally have full pricing flexibility subject to a price floor. Prices may be set by contract or tariff on short notice.	Maximum increase for a basic service is 5%. Individual discretionary service rate increases may be up to 15% annually.	Basic business and other basic services subject to price cap index of GDP-PI - 3%. Basic residence DTL and usage capped to1/00. Max. increase for basic service is 5%. If PCI >5%, PCI is maximum increase.	Individual service rate increases may be up to 15% annually. ISDN and PL are discretionary.	Yes

Bell Atlantic – Summary of Pricing Flexibility in State Regulatory Plans						
State	Contract Carriage	Competitive Services	Other Pricing Flexibility	Pricing Rules for Remaining Services		Exog Chgs
				Basic Services	Discretionary Services	
West Virginia	ICB pricing allowed for large business customers.	MTS, WATS/800, Centrex features, Private Line and Hi-Cap are competitive. Competitive Services generally have full pricing flexibility subject to a price floor. Prices may be set by contract or tariff on short notice.	Individual discretionary service rate increases may be up to the cumulative increase in the CPI since the beginning of the plan. Basic rates may be lowered for specific customers or in specific exchanges to respond to competition.	Basic rates capped to 1/01. Switched and Special Access rates may decrease but may not increase until 2/00. Basic rates may be lowered for specific customers or in specific exchanges to respond to competition.	Individual service rate increases may be up to the cumulative increase in the CPI since the beginning of the plan. Centrex, FX, PBX Trunks and ISDN are discretionary.	Yes

Bell Atlantic -- Summary of Pricing Flexibility in State Regulatory Plans					
State	**Contract Carriage**	**Competitive Services**	**Other Pricing Flexibility**	**Pricing Rules for Remaining Services**	Exog Chgs
Massachusetts	Customer specific pricing (CSP) permitted for all services in response to competitive bid. Contract pricing for Centrex services. CSPs must be filed with DPU and subject to price floor test.	Centrex is competitive. Competitive Services generally have full pricing flexibility subject to a price floor. Prices may be set by contract or tariff on short notice.		Core services subject to price index of: GDP-PI - 4.1%. Certain basic local residential rates frozen. MTS, WATS/800, ISDN, Private Line, switched and special access are considered core services and subject to the price index.	Yes
New Jersey	Customer specific pricing (CSP) contracts for packaging and discounting on all intraLATA services	MTS/WATS/800, Centrex and Hi-Cap Services (DS1, DS3, DDS, DCS, FR, SMDS and Special Access) are competitive. Competitive Services generally have full pricing flexibility subject to a price floor. Prices set by contract or tariff on short notice.	Promotional filings permitted on 1day's notice. Term and quantity discounts for selected services.	Per Stipulation no future rate adjustments under formula. Only revenue neutral filings are permitted. Residence DTL and usage capped at initial level. Term and quantity discounts in tariffs for selected services. Formula was GNP-PI (fixed rates) - 2%. Intrastate ROE>13.7% shared with customers.	Yes
New York	New services, Business network access (DTL), Centrex, Hi-Cap may also be offered under Individual Case Basis (ICBs) contracts. ICBs are filed with PSC		Revenue neutral changes may be made to all non-basic services. Min./Max. rates are established for non-basic services.	Amount of annual increase = (GDP/IPD-4%)*(12 month non-basic intrastate regulated revenues). (GDP-IPD is the GDP Implicit Price Deflator.) No rate increases for basic services. (Residential network access (DTL) and local usage, all Lifeline and Business local usage.) Individual service price increases capped by GDP/IDP+5%+/- exogenous.	Yes

Bell Atlantic -- Summary of Pricing Flexibility in State Regulatory Plans					
State	**Contract Carriage**	**Competitive Services**	**Other Pricing Flexibility**	**Pricing Rules for Remaining Services**	**Exog Chgs**
Pennsylvania	Customer specific pricing (CSP) allowed for toll services for business customers with > $40K in annual TBR. ICBs allowed in response to RFPs for business customers with > $500K in TBR. CSPs and ICBs filed on 1 day's notice subject to price floor test.	Hi-Cap, Centrex Paging, Repeat and Speed calling, Billing services and Directory Advertising are competitive. Competitive Services generally have full pricing flexibility subject to a price floor. Prices set by contract or tariff on 1 day's notice.	Revenue neutral price changes are permitted for all non-competitive services on 60 day's notice. Promotional filings are permitted on 10 day's notice.	Prices for non-competitive services capped at GDP-PI- 2.93%. No increases for protected services prior to 1/00 Protected categories: 1) residence local exchange, 2) business local exchange, 3) switched access, and 4) special access. Price cap reductions pro-rated to protected services.	Yes

Bell Atlantic – Summary of Pricing Flexibility in State Regulatory Plans						
State	Contract Carriage	Competitive Services	Other Pricing Flexibility	Pricing Rules for Remaining Services		Exog Chgs
				Basic Services	Discretionary Services	
Vermont	CSP allowed for Centrex services. Contract must be filed with the DPS and rates must be > TELRIC. Contracts reviewed within 30 days			No incentive plan.		
New Hampshire	CSP allowed in response to competitive offer in an RFP. Rates must be > incremental cost and price floor test is required.			No incentive plan.		